

1 shows the discount inputs used for each switch
2 configuration in BA-NY's study and the total switch price
3 for non-ISDN and ISDN equipment calculated by SCIS using
4 the new discount inputs manipulated as discussed above in
5 order to force the vendor stated new switch discounted
6 price. The Attachment also compares it to the net new
7 switch price stated by BA-NY's vendors. When running SCIS
8 for this purpose, we used discounts rounded to $\frac{1}{2}$ of a
9 percent. Many more runs could be made in an attempt to
10 derive the precise discount input necessary to produce the
11 exact switch vendor price set forth in the vendors' pricing
12 exercise responses. The approximations that use discounts
13 rounded to $\frac{1}{2}$ of one percent overstate the price, but are
14 reasonably close to the vendors' stated prices.

15
16 **Feature Port Additives**

17
18 **Q. WHAT TYPES OF EQUIPMENT ARE INCLUDED IN BA-NY'S CLAIMED**
19 **FEATURE PORT ADDITIVES?**

20 **A.** According to BA-NY, these claimed costs represent unique
21 hardware that must be purchased in order to provision
22 features.

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1 Q. HOW DOES BA-NY COMPUTE THE CLAIMED COST OF THIS EQUIPMENT?

2 A. BA-NY says it used the feature module (SCIS/IN) of the SCIS
3 program to calculate most of these costs.

4 Q. HOW DOES THE DISCOUNT INPUT DISCUSSION ABOVE AFFECT THE
5 FEATURE MODULE OF SCIS?

6 A. The SCIS/IN program also requires discount inputs to be
7 entered so that net prices for feature-related hardware can
8 be correctly calculated. BA-NY's claimed feature
9 investments, therefore, have been similarly overstated due
10 to incorrect discount inputs.

11 Q. WHAT CORRECTIONS NEED TO BE MADE TO BA-NY'S FEATURE PORT
12 ADDITIVES?

13 A. As noted above, the AT&T/MCI WorldCom UNE 2 Cost Study's
14 switch price inputs already include features. By relying
15 on the AT&T/MCI WorldCom switch price inputs, all feature
16 port additives should be set to 0. Two other options
17 exists. First, BA-NY could recalculate its claimed feature
18 costs with an appropriately weighted average discount
19 input. Since BA-NY did not provide the feature module
20 loaded with input data, we were unable to recalculate the

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1 features with the correct discount inputs.³⁷ Second, the
2 feature port additives could be reduced in the same ratio
3 as the digital line port. The switch digital line port UNE
4 corrected for the discount inputs and the EF&I factor
5 (described below) is approximately 11% of BA-NY's claimed
6 cost. We recommend that the feature port additives be
7 reduced by 89% as well. It is appropriate to use the
8 digital port UNE reduction because it is not complicated by
9 the inclusion of MDF or RTU fees that are not being
10 impacted by the discount adjustments.³⁸

11 **Q. DOES THIS ONE ADJUSTMENT FOR DISCOUNT INPUTS CORRECT ALL OF**
12 **BA-NY'S FEATURE PORT ADDITIVE ERRORS?**

13 **A.** No. The Centrex intercom usage feature port additives for
14 a regular Centrex line and the Circuit Switched Voice
15 intercom usage port additives for Centrex on an ISDN line
16 are estimated levels of usage that are being assigned to a
17 flat-rate port additive.
18 We understand that a UNE-P line, whose end user has Centrex
19 service on either a regular line or an ISDN line, would

³⁷ Nor were we able to review the multiple traffic inputs that are required for each feature that also significantly impact the feature cost results.

³⁸ It warrants emphasis that under the forward-looking network construct, the rates CLECs pay for UNE-P must be based solely on digital -- not analog -- line ports.

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1 generate MOU UNE switch charges to a CLEC for every minute
2 the line uses. BA-NY's separate and additional Centrex
3 intercom usage and Circuit Switched Voice port additives
4 would, therefore, be a double count and result in double
5 recovery for those minutes that are intra-Centrex calls.
6 This port additive should be set to 0.

7
8 It is important to note that BA-NY uses the costs of some
9 UNE elements as part of the calculations for some features,
10 such as trunk ports for Voice Dialing and Callability. All
11 UNE cost restatements should be incorporated into the
12 feature port additives that use UNE costs as inputs to the
13 calculations.

14 **Q. ONCE THE DISCOUNT INPUTS ARE CORRECTED, ARE THE FEATURE**
15 **COSTS RIGHT?**

16 **A.** We don't know. BA-NY did not provide all of the inputs
17 used to calculate the feature port additives. SCIS/IN
18 requires multiple traffic estimates of feature usage for
19 each feature. The most common input requires estimating how
20 often, on average, a feature will be used in the busy hour
21 by each customer that has the feature, and these are
22 particularly difficult to estimate. Typically, changing an
23 estimation of the number of times a feature will be used

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1 will linearly impact the calculated investment. For
2 example, changing an input regarding the number of times a
3 customer uses a feature in the busy hour from .25 to .5
4 will double the feature cost.

5
6 When asked to provide documentation or support for the few
7 feature inputs that are relatively easy to obtain (number
8 of lines with the feature³⁹), BA-NY could not comply. Its
9 repeated response was:

10
11 "Any documents that may have been relied on by the relevant
12 Product Managers to support this assumption cannot be
13 located, as a result of the fact that those managers are no
14 longer with the Company or are in other assignments."⁴⁰
15 An example of a relatively easy input is the "25 lines per
16 Centrex group" used by BA-NY to allocate the costs of a
17 dedicated Centrex announcement to a per port cost.⁴¹ It
18 arrived at the 25 lines arbitrarily via the following
19 incomprehensible logic:

³⁹ Specifically, the number of Centrex lines per Centrex group for regular Centrex and ISDN-based Centrex.

⁴⁰ BA-NY responses to ATT-BA-239 and ATT-BA-241.

⁴¹ Workpaper B1, Section 10, Pages 1-3, Line 2.

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1 "Ten Centrex groups were randomly chosen to study. The
2 final tally was 321 lines per Centrex group in this study.
3 However, one account was a federal account with 3,000
4 lines, a number of which indicated they were disconnected
5 when dialed. Of the remaining nine accounts, the average
6 was 29 lines per Centrex group."⁴²

7
8 BA-NY chose to use only 10 Centrex customers in the above
9 Centrex study, and arbitrarily excluded a large customer's
10 Centrex, and then inexplicably used a number as the feature
11 input that was smaller than the result that the completely
12 flawed study produced anyway.

13
14 Adding inconsistency to the arbitrariness of the Centrex
15 lines per group described above, BA-NY assumed only 5 lines
16 per Centrex if they are on ISDN⁴³ - a totally unsupported
17 input.⁴⁴

18
19 And these inputs are the easy ones. If these can't be
20 determined correctly, the more difficult busy hour usage

⁴² BA-NY response to ATT-BA-239.

⁴³ Workpaper Part B-1, Section 30, Page 1-3, Line 2.

⁴⁴ See BA-NY response to ATT-BA-241.

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1 inputs required for most of the other port additives are
2 certainly highly suspect.

3 Another error in the two announcement port additives is the
4 discrepancy for the starting material investment for an
5 announcement for an ISDN-based Centrex compared to an
6 announcement for a non-ISDN based Centrex. They use
7 exactly and precisely the same announcement, but the cost
8 per announcement is radically different.⁴⁵ The claimed
9 announcement cost is \$1,672.5143 for the ISDN-based
10 Centrex⁴⁶ and \$664.5907 for the regular Centrex⁴⁷. There is
11 no explanation as to why BANY uses radically different
12 investments for the same announcement.

13 **Q. HOW DO YOU PROPOSE TO CORRECT THESE ERRORS?**

14 **A.** BA-NY has not met its burden of proof to document and
15 support its costs for features. There are obviously
16 incorrect inputs and errors for the four features we can
17 review, and it would be expected that similar errors occur
18 throughout BA-NY's claimed feature port additives.⁴⁸

⁴⁵ This can be verified by examining the values for the announcement circuit used in the Centrex and ISDN Centrex feature algorithms. They are the same.

⁴⁶ See Workpaper Part B-1, Section 30, Pages 1-3, Line 1.

⁴⁷ See Workpaper, Part B-1, Section 10, Pages 1-3, Line 1.

⁴⁸ Indeed, BA-NY already filed revised cost studies for Callability and Voice Dialing port additives after receiving AT&T's request for supporting documentation of those feature inputs.

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1 However, once the discount inputs modifications are made as
2 described previously, most of these feature costs will be
3 de minimus and it would be expected that it will cost more
4 administratively to measure, track and bill them than the
5 features themselves cost. It would be appropriate for all
6 of the undocumented feature port additives to be
7 eliminated entirely.

8
9 If, however, this Commission keeps the individual services
10 as port additive element costs, then first, the 89%
11 reduction for the discount input adjustments must be made.
12 It is critical that the discount corrections be made to all
13 switch investments used in feature studies, including those
14 that were manually produced, as well as those calculated by
15 SCIS.⁴⁹

16
17 Second, the double counted Centrex Intercom and Circuit
18 Switched Voice (ISDN) Intercom should be set to 0.

19
20 Third, BA-NY should recalculate the two announcement
21 features using the initial 391 ports per Centrex group
22 determined by the BA-NY study, for both the basic and ISDN
23 Centrex and also correct the disparity between the

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1 announcement investments. If BA-NY has included other end-
2 office costs, such as processing or switch usage in these
3 announcement investments, these should be excluded because
4 those costs have already been identified and allocated to
5 the MOU element in BA-NY's usage study.⁵⁰

6
7 **Switch Engineering And Installation Factors**

8
9 **Q. WHAT IS THE SWITCH EF&I FACTOR?**

10 **A.** The engineering, furnished and installed ("EF&I") factor is
11 the loading factor used to "translate a material-only
12 investment, including such items as vendor engineering, BA-
13 NY engineering, transportation, warehousing, vendor
14 installation, BA-NY installation, and acceptance testing."⁵¹

15 **Q. HOW DOES BA-NY'S EF&I FACTOR COMPARE TO OTHER COMPANIES'**
16 **DEFINITIONS OF AN EF&I FACTOR?**

17 **A.** BA-NY's EF&I factor for switches is basically the same as
18 other telephone companies' factors with one major
19 exception. Most companies' switch prices include vendor

⁴⁹ We did not include these adjustments in the restatement of UNEs.

⁵⁰ The MOU study included ALL usage and processing costs. Counting usage or processing in both the port additive and in the MOU study would be a double count and result in double recovery.

⁵¹ Panel Testimony pg. 44

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1 engineering and installation. These costs are consequently
2 included in the switch prices and are not in the EF&I
3 factor. BA-NY, however, purchases switches as material
4 only. Therefore, the vendor engineering and installation
5 is appropriately added in BA-NY's EF&I factor.

6 **Q. IS BA-NY'S SWITCH EF&I FACTOR, WHEN ADJUSTED FOR THE VENDOR**
7 **ENGINEERING AND INSTALLATION, WITHIN A RANGE OF**
8 **REASONABLENESS WHEN COMPARED TO OTHER TELEPHONE COMPANIES?**

9 **A. No, BA-NY's factor is clearly unreasonable. BA-NY's factor**
10 **is approximately 43.5%. BA-NY's EF&I factor, after**
11 **adjusting for the difference in the vendor engineering and**
12 **installation is approximately 72% higher than other**
13 **telephone companies.**

14 **Q. WHAT ARE OTHER TELEPHONE COMPANIES' SWITCH EF&I FACTORS?**

15 **A. Other telephone companies' factors range from 8-12% and**
16 **average approximately 10%. The RBOC information comes from**
17 **various ONA filings from the early 1990's. More recently,**
18 **Sprint agreed with the rural telephone companies in the**
19 **FCC's USF proceeding that a switch EF&I factor of 8% is**
20 **reasonable.**

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1 **Q. WHY SHOULD THIS COMMISSION RELY UPON DATED AND RURAL**
2 **TELEPHONE COMPANY FACTORS AS IT CONSIDERS BA-NY'S CLAIMED**
3 **COSTS?**

4 **A. Although the referenced RBOC factors are dated, there have**
5 **been two opposing trends within the telecommunications**
6 **field generally that should have kept the EF&I factor**
7 **approximately the same since the early 1990's. Rising**
8 **labor costs have been offset by increased capabilities of**
9 **digital switches (primarily in software) that reduces the**
10 **amount of labor required to engineer and install a switch.**
11 **Examples include simplified vendor engineering tools used**
12 **by telephone companies to engineer a switch, and software**
13 **that simplifies and shortens the time to install a switch.**
14 **Moreover, rural telephone companies recently proposed an 8%**
15 **EF&I factor in the FCC's USF proceeding that Sprint (not a**
16 **small company) agreed was reasonable for non-rural**
17 **companies.**

18 **Q. CAN YOU QUANTIFY THE VENDOR ENGINEERING AND INSTALLATION**
19 **COSTS THAT WERE NOT ADDRESSED IN BA-NY'S STUDY?**

20 **A. Yes. SCIS can produce either material only costs (used by**
21 **BA-NY), or material (the 'Furnished' part of EF&I) plus**
22 **vendor engineering and installation (EF&I) costs. Simply**
23 **by changing the calculation toggle in SCIS from material to**

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1 EF&I produces total investment, including vendor
2 engineering and installation. We kept all inputs identical
3 and reran the model at EF&I investment. The difference
4 between material and EF&I investments for the BA-NY offices
5 averages 15%.

6 **Q. WHAT DO YOU PROPOSE AS A REASONABLE FORWARD-LOOKING**
7 **EFFICIENT EF&I FACTOR?**

8 **A.** Adding the 15% vendor engineering and installation to the
9 average RBOC EF&I factor addressed above of 10% results in
10 an overall EF&I of 25%. This is an appropriate factor that
11 would be expected for an efficient company on a forward-
12 looking basis that purchases switches at material only
13 prices.

14

15 **Derived Rates**

16

17 **Q. HOW HAS BA-NY DEVELOPED THE SWITCH PORTION OF THE DERIVED**
18 **RATES?**

19 BA-NY used a different Telcordia model called NCAT to
20 develop the switch portions of the BA-NY's proposed derived
21 rates. NCAT uses outputs from SCIS, but the SCIS outputs
22 are different than the output results used by BA-NY in the
23 UNE switch cost development.

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1 **Q. WHAT IS THE DIFFERENCE BETWEEN THE BA-NY PROPOSED SWITCH**
2 **UNE COSTS AND THE DERIVED SWITCH COSTS?**

3 **A. BA-NY has proposed derived switch rates that are more than**
4 **25% lower than the UNE switch usage rates.**

5 **Q. HOW DOES BA-NY EXPLAIN THE DIFFERENCE BETWEEN THE TWO**
6 **COSTS?**

7 **A. BA-NY calls the switch portions of the derived rate 'Usage**
8 **Cost (without Features).'** BA-NY implies that the only
9 difference between the two costs is attributable to
10 features.

11 **Q. IS THE 25% DIFFERENCE ATTRIBUTABLE TO FEATURE COSTS?**

12 **A. No. BA-NY's claimed UNE switch MOU costs includes forward-**
13 **looking amortized costs for RTU "base generic software and**
14 **features",⁵² but BA-NY claims that it has excluded feature-**
15 **related RTU fees from the derived rate. The RTU fee**
16 **factors are flawed to start with (as explained below), but**
17 **are only approximately 5% - 6% of the MOU cost for UNEs.**
18 **The RTU fee cannot explain the more than 25% difference in**
19 **claimed switch costs for UNEs and the "usage without**
20 **features" switch portion of the derived rate.**

⁵² Panel Testimony, pg. 235

1 Q. DID BA-NY ANALYZE THE DIFFERENCE TO DETERMINE PRECISELY
2 WHETHER FEATURES CAN ACCOUNT FOR THE ENTIRE DIFFERENCE?

3 A. No. In fact, BA-NY uses curious language to answer
4 its own question, "How does BA-NY's study separately
5 identify the cost of features?" used in the derived rates:
6 "BA-NY estimates that the difference between the Local
7 Switch Usage MOU cost and the Usage Without Features MOU
8 cost (originating and terminating) is the originating and
9 terminating MOU cost associated with features only."⁵³ This
10 is an unsupported conclusion and does not answer BA-NY's
11 own excellent question - how did it separately identify the
12 cost of features to remove them from the claimed UNE cost.
13 The answer to the question is that BA-NY did not separately
14 identify the cost of features. They used a different model
15 that uses different output results from SCIS to produce the
16 switch investment. The difference is primarily
17 attributable to different cost methodologies, and not the
18 explicit difference, if any, in the cost of features.

19 Q. WHAT SHOULD THE SWITCHING PORTION OF THE DERIVED RATE BE?

20 A. The switch portion of the derived rate should use the UNE
21 switch components. A switch is engineered and purchased to

⁵³ Panel Testimony, pg. 238 emphasis added

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1 handle all of the traffic in total, without regard to
2 individual users or classes of service. The equipment used
3 for a minute of traffic is essentially the same,
4 irrespective of customer or service.

5 BA-NY's UNE switch MOU should not include any fixed RTU
6 fees (appropriately determined RTU fees should be assigned
7 to the fixed port investments). When this correction is
8 made, the argument about MOU costs with and without
9 features is moot.

10
11 Interestingly, when the discount inputs and the engineering
12 and installation factor are corrected, the UNE switch costs
13 are less than BA-NY's switch portion of the derived rate.

14
15 **Q. WHAT TYPES OF RTU FEES DOES BA-NY CLAIM TO HAVE INCLUDED IN**
16 **ITS STUDY?**

17 **A.** BA-NY claims to have identified its base generic software
18 and features.

19 **Q. HOW DID BA-NY DETERMINE THE COSTS OF THIS SOFTWARE?**

20 **A.** BA-NY used a \$300 million dollar amount from a Bell
21 Atlantic filing with the FCC for the annual RTU
22 expenditures, purportedly representing initial operating
23 and upgrade software for all switches in the 2212 account

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1 (end office switches, tandem switches, SS7 network nodes,
2 OSS, Operator Services, etc.). BA-NY explained that "The
3 documentation that supports the response to the FCC request
4 is no longer available."

5
6 BA-NY's Engineering Department made adjustments to the
7 undocumented \$300 million RTU to isolate digital switch RTU
8 fees only. BA-NY explained that "There is no documentation
9 available concerning the adjustments other than what was
10 explained in the Panel's Initial Testimony,, pages 242-243
11 and in the Supplemental Response to ATT-BA-51." The entire
12 discussion in the Panel Testimony regarding the adjustment
13 was, "Second, RTU fees not associated with central office
14 switching (e.g., Operator Services equipment, OSS, SONET
15 transport, and LNP) were removed." The Supplemental
16 Response to ATT-BA-51 simply declared that: "Of this
17 amount, Engineering estimates approximately \$230 Million is
18 associated with the Switch, approximately \$48 Million is
19 associated with SONET, approximately \$11 Million is
20 associated with Operations Support Systems, approximately
21 \$7 Million is associated with Local Number Portability and
22 approximately \$4 million is associated with the TOPS."

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1 Q. SHOULD BA OR BA-NY'S CURRENT RTU EXPENDITURES BE USED TO
2 DETERMINE FORWARD-LOOKING RTU FEES IN A TELRIC STUDY?

3 A. No. Bell Atlantic's current RTU expenditures include
4 software purchases necessary to "catch up" older switches
5 with current software programs throughout Bell Atlantic's
6 jurisdictions. A TELRIC study, as discussed previously,
7 and as recognized by BA-NY's witness Dr. Taylor, requires a
8 completely new network to be built that would eliminate the
9 need to upgrade older generation switches. In addition,
10 new entrants should not be forced to subsidize BA's overdue
11 network upgrades.

12 Q. HOW DID BA-NY ALLOCATE THE TOTAL ADJUSTED RTU FEES TO THE
13 SWITCH UNE?

14 A. BA-NY started with the total Bell Atlantic software
15 purchases, removed a pitiful 23% (\$70 Million) for SONET,
16 OSS, LNP, and Operator Services, and then allocated the
17 remaining amount evenly to every switch node in the
18 network. This allocation means that every end office,
19 tandem, TOPS switch, STP, and SCP received the same
20 assignment of costs - \$199,365 per node, which is
21 inappropriate. There is no reason to expect that a tandem
22 switch, a local end office switch, an STP and an SCP with

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1 different functions and capabilities would each have the
2 same software costs.

3 Q. HOW DID BA-NY DETERMINE THE SWITCH RTU FEES ASSIGNED TO THE
4 "USAGE WITHOUT FEATURES" SWITCH PORTION OF THE DERIVED
5 RATES?

6 A. BA-NY claims to have used vendor contracts to determine the
7 RTU costs to upgrade a switch. BA-NY assumed one upgrade
8 per Lucent switch and two upgrades per Nortel switch. BA-
9 NY then averaged them together to generate an average
10 annual RTU upgrade cost.

11 Q. WHAT IS THE DIFFERENCE BETWEEN THE UNE RTU FEES AND THE
12 DERIVED RATE RTU FEES ON A PER SWITCH BASIS?

13 A. BA-NY assumed [BEGIN BA-NY AND BA-NY SWITCH VENDOR
14 CONFIDENTIAL DATA]XXXXXXXX[END BA-NY AND BA-NY SWITCH
15 VENDOR CONFIDENTIAL DATA] per switch for UNES and [BEGIN
16 BA-NY AND BA-NY SWITCH VENDOR CONFIDENTIAL DATA]XXXXXXXX[END
17 BA-NY AND BA-NY SWITCH VENDOR CONFIDENTIAL DATA] per switch
18 for annual generic updates.

19 Q. IS THE DIFFERENCE SOLELY ATTRIBUTABLE TO FEATURES?

20 A. No. BA-NY appears to have excluded software in the "usage
21 without features" methodology that is purchased for
22 Operations, Administration and Maintenance (OA&M) functions

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1 for the basic switch. There is "feature" software that
2 also provides basic call functionality, such as SS7-related
3 software. BA-NY's conclusion that the claimed total
4 software cost (which is undocumented and undoubtedly
5 incorrect) less generic upgrades can be 100% attributable
6 to features is unsupportable and is not reasonable.

7 **Q. WHAT PORTION OF BA-NY'S PROPOSED UNE COST IS RTU?**

8 **A. Approximately 5% in Zone 1A to 6% in Zone 2.**

9 **Q. ARE THESE RTU FEES CORRECT?**

10 **A. No. It is not realistic that only \$70 Million is being used**
11 for OSS, Operator Services, Directory Assistance, SONENT and
12 other functions that all of Bell Atlantic is charging to
13 the new 2690 account. Moreover; the allocation of the
14 entire Bell Atlantic RTU equally across all account 2212
15 entities (end office switches, TOPS switches, STPs, etc.)
16 in the network, without respect to functions or cost
17 causation is not correct.

18 **Q. WHAT CAN BE DONE TO CORRECT THIS?**

19 **A. We have been unable to obtain appropriate information to**
20 determine what RTU fees would be appropriate. Again, BA-NY
21 has not sustained its burden of proof and these claimed
22 costs should be rejected.

1

2 **VERBATIM RECORD**

3
4 Q. HAS BA-NY ASSIGNED THE SCIS RESULTS TO THE CORRECT TRAFFIC
5 SENSITIVE AND NON-TRAFFIC SENSITIVE ELEMENTS?

6 A. No. The first cost of a switch is not traffic sensitive,
7 nor are switch RTU fees (note that BA-NY oxymoronically
8 termed the first cost as "fixed traffic sensitive" in its
9 Workpapers in previous UNE proceedings⁵⁴). Digital switches
10 are port-limited, not call or minute of use capacity
11 constrained.⁵⁵ This is true for BA-NY as can be seen in BA-
12 NY's own studies showing the six switches' processor
13 utilizations at the end of their lives are [BEGIN BA-NY
14 CONFIDENTIAL DATA]XXXXXXXXXXXXXXXXXXXXXXXXXXXX[END BA-NY
15 CONFIDENTIAL DATA]⁵⁶ Therefore, the appropriate cost driver
16 is ports, not minute of use and the getting started cost
17 should be allocated to all of the line and trunk ports
18 using the switch.

⁵⁴ See Workpaper B, page 93 in case 95-C-0657 and 94-C-0095 and 91-C-1174.

⁵⁵ See the following from major RBOC's: BA-NY: J. Gansert's testimony, Case 95-C-0657, 94-C-0095, 91-C-1174, page 24. SWBT: Transcript (pg 3556) of Costing Pricing Issues SWBT Arbitration PUC Docket 16226, 11/3/96 cross of Raley. Ameritech: Direct Testimony of William Palmer, ICC Docket 96-0486, Ameritech-Illinois Exhibit 3.3. Pacific Bell: R. Scholl February, 1997, deposition in case R.93-04-993 and I.93-04-002.

⁵⁶ These are in BA-NY's inputs to SCIS shown on page 7 of Sections 43.1P-43.9P of Workpaper Part B-1.

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1 BA-NY allocates RTU fees per switch. RTU fees are almost
2 always fixed costs for either the entire switched network
3 as a whole (or fixed on a per switch basis and are never
4 minute of use sensitive.⁵⁷ BA-NY, however, adds these
5 investments to the minute of use element. The allocation
6 of a fixed cost will always be somewhat arbitrary, but it
7 is more appropriate to assign it to the least-volatile
8 element - the ports.

9
10 BA-NY's allocation of fixed costs to rapidly growing
11 minutes of use will mean that severe overrecovery will
12 occur. For example, if we have \$100,000,000 of investment
13 spread over today's 1,000,000 minutes of use would result
14 in \$1.00 per minute. As soon as the minutes grow beyond
15 1,000,000, each additional minute will bring in \$1.00
16 resulting in cost overrecovery. If minutes grow 10%, then
17 a 10% cost overrecovery will be gifted to BA-NY.

18
19 Recognizing that cost overrecovery will occur whenever a
20 fixed cost is recovered via any element that is growing,
21 we propose that the RTU costs should be assigned to all
22 ports as they are growing much more slowly and cost

⁵⁷ Some RTU fees can be port-sensitive, but the BA-NY methodology for RTU fees do not identify these fees separately.

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1 overrecovery will be minimized. In addition, for RTU fees
2 that are incurred on a per switch basis, exhaustion of
3 ports is the cost driver for the purchase of an additional
4 switch and the concomitant RTU fee. Cost causation
5 principles are best preserved by allocating RTU fees to the
6 ports in the same manner as the getting started cost.
7 Alternatively, if the Commission does not accept assigning
8 the RTU and/or the getting started cost of the switch to
9 the ports, then BA-NY should be required to spread the
10 fixed costs over the forecasted minutes, not current
11 minutes.⁵⁸

⁵⁸ Our proposed costs do not incorporate moving the fixed costs from the MOU to the ports or spreading the fixed costs over forecasted minutes. Therefore, our proposed MOU costs are conservatively high.